



MEMORANDUM

To: CMAP Board
From: CMAP Staff
Date: February 3, 2016
Re: Alternative Long-Term Funding Options

This memo continues the discussion of alternative long-term funding options for the agency that began in November and continued through January. In January, the Board discussed initial thoughts prepared by staff and directed staff to continue to explore possible **legislative solutions**, as well as **non-legislative solutions** that could be exercised as a backup plan in the absence of state legislation.

The legislative solutions will be considered by the Board as part of the 2016 State Legislative Framework and Agenda. The conclusions of the January presentation on non-legislative solutions included the following:

- CMAP's overall budget is lower than its peers, meaning that CMAP provides its services more efficiently than other comparable regional agencies.
- The low reliance of the agency on local funding is unusual. No other comparable agency, either nationwide or within Illinois, has such a low reliance on local funding. CMAP is unique in relying nearly entirely on the state for its local match.
- Many other comparable agencies are more aggressive at seeking competitive grants. While CMAP should pursue these more actively, these sources are typically not appropriate to provide the required local match for federal transportation funds.
- CMAP's predecessor agencies -- NIPC and CATS -- had significantly larger shares of local funding in their budget than our agency currently does.

As discussed in January, a backup option is likely to be made up of local dues, fee-for-service arrangements, and external grants. All of these are already employed by CMAP, but are small in scale. Staff recommends that the backup option consist of increased funding through these sources, with the goal of reducing, but not eliminating, reliance on the state.

Target funding levels

Table 1 shows FY16 budget amounts and proposed approximate targets for future budgets.

Table 1. Proposed long-term budget adjustments

| Revenue source | FY16 budget | Proposed long-term adjustments |
|-----------------|--------------|---|
| FHWA and FTA | \$12,725,455 | Maintain, with growth over time as federal spending increases |
| IDOT | \$3,601,364 | Reduce to \$2 million annually |
| Local dues | \$250,000 | Increase to \$1.5 million annually |
| Fee-for-service | \$100,000* | Increase to \$500,000 annually |
| Other | \$1,009,300 | Increase to \$2 million annually |
| Total | \$17,586,119 | |

* Fee-for-service revenue was not initially included in the 2016 budget because the LTA local match requirement, which took effect in fall 2015, had not yet been implemented. Approximately \$200,000 annually is expected to be generated through this requirement, with a smaller amount (\$100,000) in the initial year.

As this table shows, the proposed changes seek to raise approximately \$1.6 million additional annually through local dues and fee-for-service arrangements. This amount is half of the \$3.2 million that is required to match CMAP's federal funding. Correspondingly, funding from IDOT, which currently contributes all of the required match plus an additional \$400,000, is proposed to be cut by \$1.6 million. In other words, this proposal evenly splits the required match between IDOT and other local sources. On top of this, CMAP also intends to pursue external grants more aggressively, with the target of doubling the amount received through such sources.

These increases in dues and fee-for-service are significant, and may not be feasible to implement within one year. It may be desirable to phase in these increases over a two-year period. Table 2 shows a proposed stepped increase in FY17 and FY18 to reach the proposed long-term levels. Further future increases to accommodate inflation will also be necessary, but these details will be worked out at a later point.

Table 2. Future Budget Proposal

| Revenue source | FY16 budget | FY17 proposal | FY18 proposal |
|-----------------|-------------|---------------|---------------|
| Local dues | \$250,000 | \$1,000,000 | \$1,500,000 |
| Fee-for-service | \$100,000 | \$300,000 | \$500,000 |

The remainder of this memo walks through the local dues and fee-for-service elements in some additional detail, but it does not present a full proposal. The process for continuing to add detail to the funding proposal is described in the next steps section at the end of this memo.

Local dues

As noted in the January memo to the Board, CMAP charges far less in local dues than any comparable regional agency, and also considerably less than its predecessor agencies did in 2006. A reconsideration of dues levels is a central part of the backup plan described in this memo.

The FY17 proposed target of \$1 million in local dues is essentially the same as the amount raised from dues on 2006. However, staff are not proposing simply returning to the 2006 distribution. Staff proposes dividing dues between the three types of agencies that support and govern CMAP: Counties, municipalities (including Councils of Government and Councils of Mayors), and transportation agencies. While a split remains to be determined, staff recommends each of these groups should contribute, because all receive value from CMAP's operations, and no single one of these groups should pay more than half of all local dues.

Distribution of local dues within these three agency types also needs to be determined, but staff's initial thoughts are as follows:

- For Counties, the distribution of dues should reflect the large difference in County size, but also acknowledge that each County receives the same number of votes on the MPO Policy Committee. A potential distribution would involve a base level for each County, plus a portion based on population.
- For municipalities including Chicago, assessing dues based on population is a likely solution, mirroring how municipal dues are currently collected. It is likely desirable to use the Council of Mayors system to aggregate dues by subregion, rather than charging individual municipal dues. This reflects one of the main purposes of the Council of Mayors system, which is to serve as a link between CMAP and municipalities.
- For transportation agencies, a potential measure of ability and interest to support CMAP may be the amount of funding contained in the TIP for each agency. This corresponds to both agency size, as well as the amount of service that CMAP provides to each agency to maintain the TIP. Please note that funding from IDOT is treated separately, and IDOT is not grouped with the other transportation agencies for the purposes of this discussion.

Staff believes it is important for local dues to be mandatory rather than voluntary. Some support for this position was expressed at the Board meeting in January. However, staff is not yet certain what types of penalties for non-payment (or, more positively, incentives for payment) can be offered while continuing to comply with federal law. Discussions with FHWA on this matter are underway.

Fee-for-service arrangements

Local dues are only one way that additional revenue for CMAP's activities can be generated. Another method is through charging for services that CMAP offers. This was recently initiated for the LTA program, and there may be opportunities to charge fees for other services as well. However, as noted above, CMAP and FHWA are still discussing what activities are eligible for fee-for-service requirements, so staff is not yet able to provide much detail on this element of the backup plan.

As discussed earlier, the proposal for fee-for-service revenue is \$500,000 annually, with somewhat lower expectations in FY17. However, this amount is entirely contingent on the legality of charging for various services, and it may actually be much lower or much higher. Any changes in the assumption of \$500,000 in fee-for-service revenue would require corresponding changes in the amount of local dues.

External grantseeking

Staff recommends increasing CMAP's efforts to seek external grants, doubling the annual target from \$1 million to \$2 million. However, funds raised through external grantseeking are likely not appropriate to contribute to the required local match for federal transportation funding. Therefore, this element of the backup plan is not extensively explored in this memo.

Next steps

To further develop the ideas in this memo, CMAP staff recommends convening a small group of representatives of relevant agencies. This is envisioned as a non-voting, advisory group, meant to provide input to CMAP in a more informal setting. Members are proposed to include representation from Counties, the Council of Mayors, the City of Chicago, transportation agencies (including but not limited to IDOT), and FHWA. This group will be asked to meet at least twice in the next month to assist CMAP with preparing a more detailed proposal that can be presented to the Board and MPO Policy Committee in March.

Additionally, CMAP will begin working on short, one-page documents, customized to each agency that will be asked to contribute local dues, explaining the reasons why CMAP must request a higher dues contribution, describing the work that CMAP has done with each agency, and enumerating the reasons why funding CMAP is directly beneficial to them. Individualized and highly specific documents will be created for each agency.

Ultimately, in the absence of a successful state legislative approach, the elements of this backup plan will be included within the CMAP budget, to be presented to the Board in May and approved in June. There may also be a need to modify the Memorandum of Understanding between the CMAP Board and MPO Policy Committee, which would require action by both bodies in June.

Further timing considerations

While the solutions in this memo are proposed to be implemented in FY17, it is not reasonable to expect that the proposed funding will be received early in the fiscal year. Most agencies will require time to find space in their budgets for a higher dues contribution. Even if the backup plan described in this memo is successfully put into place, CMAP will still experience significant cash flow issues in early FY17. Staff are developing options to address this, and will report on progress at a future Board meeting.

ACTION REQUESTED: Discussion

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